

"A monthly survey of supply chain managers"

Welcome to our April report covering results from Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states. This survey indicates that the economic growth has moved into a range indicating strong economic growth ahead with rising inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Corporate Tax Reform, An Easy Win-Win One-Time Tax Cut on Repatriated Earnings

Last month in a pessimistic tone, House Speaker Paul Ryan announced that tax reform would take longer than repealing and replacing Obamacare. But with Republicans and Democrats holding enough votes to thwart most efforts, comprehensive tax reform represents a fool's errand. Instead, Congress should pass tax reform in digestible portions. For example, cutting tax rates on earnings of U.S. corporations held abroad is a win-win that would find acceptance by even the most hardened DC taxpayer/spender.

The United States, with the third highest corporate income tax rate in the world at 39.1 percent when state taxes are included, is exceeded only by Chad and the United Arab Emirates. Due to U.S. high corporate tax rates, rather than bringing profits home from abroad, U.S. corporations squirrel the profits in off-shore accounts or invest the cash in plant, equipment and technology among America's competing nations. Worse still, some U.S. companies engage in inversions whereby a U.S. company moves its headquarters to low tax nations such as Ireland with its 12.5 percent tax rate.

Congress and the Trump Administration should take action that would both increase tax collections, reduces tax inversion deals, and boosts U.S. corporate investment. Currently, it is estimated that U.S. firms hold as much as \$3.0 trillion abroad. Assuming a one-time corporate tax rate of 10 percent on repatriated earnings of \$2.0 trillion, 2017 tax collections would climb by \$200 billion. The remaining \$1.8 trillion of repatriated earnings could be used for job creating (desirable to less desirable):

- 1) investment in plant, equipment and technology,
- 2) dividends to investors,
- 3) stock repurchases, and
- 4) salaries to employees.

Both Democrats and Republicans can and would sign on to this winning tax reform in a speedy fashion. Ernie Goss.

Link to video: <https://youtu.be/TbzCIRHIBXI>

LAST MONTH'S SURVEY RESULTS

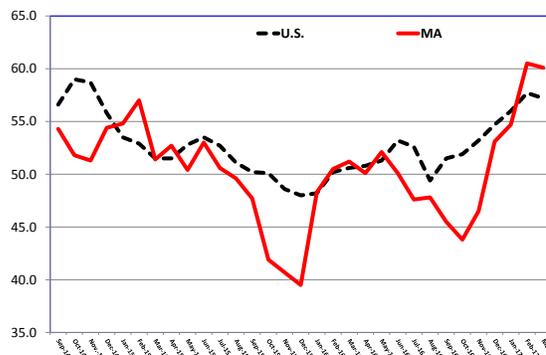
Inflation Reading Jumps to Highest Level in Six Years for March Mid-America Index Declines to Still Strong Reading

SURVEY RESULTS AT A GLANCE:

- Overall index climbs above growth neutral for a fourth straight month.
- Employment gauge soars to highest level in more than 10 years.
- Wholesale inflation gauge climbs to its highest level in six years.
- Business confidence index remains healthy.
- Trade numbers advance for the month.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, dipped to a still healthy level for March, according the latest survey results.

U.S., and Mid-America Economic Indicators, 2014-17



Overall index: The Business Conditions Index, which ranges between 0 and 100, slipped to 60.1 from February's strong 60.5. This is the fourth straight month the index has advanced above growth neutral. The overall index over the past several months indicates a healthy regional manufacturing economy, and points to positive growth for both manufacturing and nonmanufacturing through the third quarter of this year.

Employment: The March employment index remained above growth neutral soaring to 62.6 from February's solid 55.6, and up from January's 57.0. This is the highest employment gauge recorded since May of 2006. Even though the nonmanufacturing sector of the regional economy continues to outperform the manufacturing sector, that gap is closing. As in past months, nondurable goods producers are adding jobs while durable goods manufacturers continue to shed jobs, albeit at a slow pace.

Approximately 62.9 percent of firms expect to increase hiring in the next six months. In June of last year, only 24.6 percent of supply managers indicated they expected new hiring in the subsequent six months. Clearly the employment outlook is improving significantly for regional manufacturing firms.

Wholesale Prices: The wholesale inflation gauge remained in a range indicating rising inflationary pressures at the wholesale level as the prices-paid index increased to 77.1, its highest level in six years and up from 75.0 in February.

This is the highest wholesale inflation gauge that we have recorded in the past six years. The interest-rate setting committee of the Federal Reserve, the FOMC, increased rates last month. Our survey points to additional rate hikes in the months ahead.

Confidence: Looking ahead six months, economic optimism, as captured by the March business confidence index, declined slightly to 70.2 from 71.3 in February. The economic outlook remains strong among supply managers in the nine-state region.

Inventories: The March inventory index, which tracks the change in the level of raw materials and supplies, climbed to 61.9 from February's 58.0.

Trade: The regional new export orders index fell to a still healthy 61.6 from 63.6 in February, and the import index climbed to 62.8 from February's 54.1. An expanding regional economy pushed

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buying from abroad higher for the month. Recent declines in the value of the U.S. dollar and expanding global economic conditions have stimulated new export orders for the month.

Other components: Components of the March Business Conditions Index were new orders at 63.2, down from 67.3 in February; production or sales index was 58.8, down from February's 69.7; and delivery speed of raw materials and supplies rose to 54.0 from last month's 51.9.

The Creighton Economic Forecasting Group has conducted the monthly survey of supply managers in nine states since 1994 to produce leading economic indicators of the Mid-America economy. States included in the survey are Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota.

The forecasting group's overall index, referred to as the Business Conditions Index, ranges between 0 and 100. An index greater than 50 indicates an expansionary economy over the course of the next three to six months. The Business Conditions Index is a mathematical average of indices for new orders, production or sales, employment, inventories and delivery lead time. This is the same methodology, used since 1931, by the Institute for Supply Management, formerly the National Association of Purchasing Management.

MID-AMERICA STATES

ARKANSAS

Arkansas' overall index for March rose to 63.2 from February's 58.9. Components of the index from the monthly survey of supply managers were new orders at 65.7, production or sales at 66.1, delivery lead time at 55.3, inventories at 64.2, and employment at 64.9. While the state's durable goods sector lost 1,400 jobs over the past 12 months, nondurable goods producers in the state added approximately 3,500 jobs. Recent surveys of supply managers indicate that both manufacturing and nonmanufacturing firms in the state will expand output and employment for the next three to six months.

IOWA

The March Business Conditions Index for Iowa slipped to 60.5 from 62.6 in February. Components of the overall index from the monthly survey of supply managers were new orders at 63.7, production or sales at 58.8, delivery lead time at 53.6, employment at 64.2, and inventories at 62.2. Durable goods manufacturers in the state, especially those linked to agriculture continue to experience pullbacks with job losses of approximately 3,700 over the past 12 months. On the other hand, transportation and nondurable goods firms in the state are benefiting from the upturn in regional and national economic activity.

KANSAS

The Kansas Business Conditions Index for March slumped to a regional low of 52.2 from February's 61.5. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 54.7, production or sales at 50.5, delivery lead time at 46.1, employment at 54.1, and inventories at 55.3. It is too early to determine, but it is clear that fires across the state negatively affected the index. I expect those negative impacts to continue into April. Gains for nondurable goods manufacturers exceeded the losses for durable goods producers. However, I expect the state's overall reading to move below growth neutral for Creighton's April survey.

MINNESOTA

The March Business Conditions Index for Minnesota advanced to 61.8 from February's 54.3. Components of the overall March index from the monthly survey of supply managers were new orders at 65.3, production or sales at 60.3, delivery lead time at 54.9, inventories at 63.8, and employment at 64.5. Durable goods manufacturers, including metal producers, continue to detail slow growth while nondurable goods firms such as food processors experience improving economic conditions. Overall growth, both manufacturing and nonmanufacturing, will continue to expand at a healthy pace for the next three to six months.

MISSOURI

The March Business Conditions Index for Missouri declined to 66.6 from February's 66.8. Components of the overall March index from the survey of supply managers were new orders at 69.9, production or sales at 64.6, delivery lead time at 58.9, inventories at 68.4, and employment at 71.2. Business activity remains healthy for nondurable firms while growth has picked up for durable goods manufacturers such as metal producers. I expect firms to continue to add jobs above at an annualized pace above 2 percent for the next three to six months.

NEBRASKA

The March Business Conditions Index for Nebraska expanded to 59.8 from 55.4 in February. Components of the index from the monthly survey of supply managers were new orders at 63.2, production or sales at 58.4, delivery lead time at 53.2, inventories at 61.8, and employment at 62.5. While the state's durable goods sector lost 1,300 jobs over the past 12 months, nondurable goods producers in the state added approximately 1,600 jobs. Recent surveys of supply managers indicate both manufacturing and nonmanufacturing firms will expand output and employment for the next three to six months.

NORTH DAKOTA

North Dakota's overall, or Business Conditions Index, advanced above growth neutral for the month. The index for March from a survey of supply managers sank to 54.3 from 66.8 in February. Components of the overall index were new orders at 57.3, production or sales at 53.0, delivery lead time at 48.3, employment at 56.7, and inventories at 56.1. The state's energy sector has stabilized, albeit back to 2011 levels, while the manufacturing sector is experiencing upturns in business activity. I expect job growth to hover only slightly above zero for the next three to six months in the state.

OKLAHOMA

The state's Business Conditions Index moved above the growth neutral threshold for a third straight month. The March index decreased to a solid 58.2 from 59.0 in February. Components of the overall March index from a survey of supply managers in the state were new orders at 61.5, production or sales at 56.8, delivery lead time at 51.8, inventories at 60.1, and employment at 60.8. Durable goods manufacturers in the state, especially those linked to the state's large energy sector, continue to experience pullbacks in economic activity. On the other hand, nondurable goods producers in the state, including food processors, are experiencing upturns in economic activity. I expect annualized job gains for nonfarm firms for the next three to six months to remain positive, but below 1 percent.

SOUTH DAKOTA

The Business Conditions Index for South Dakota advanced to a regional high 67.2 from February's 62.4. Components of the overall index for the March survey of supply managers in the state were new orders at 71.0, production or sales at 65.6, delivery lead time at 59.8, inventories at 69.4, and

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employment at 70.2. Over the past several months, results from Creighton's surveys indicate South Dakota will join Missouri in experiencing strongest business and job growth in the region. I expect annualized job gains for the state's nonfarm firms to rise over 2 percent over the next three to six months.



THE BULLISH NEWS

- The nation's unemployment fell to 4.5% for March. This is slightly below the Federal Reserve's rate at which the economy continues to expand without excessive inflation.
- Year over year average hourly earnings for workers rose to 2.7% for March, well above the rate prevailing over most of the economic recovery.
- The U.S. trade deficit slumped to \$43.6 billion in February from \$48.2 billion in January as global demand for U.S. exports climbed.
- The Case-Shiller home price index for the U.S. rose 5.9%, a 31-month high in January.



THE BEARISH NEWS

- The long-term unemployed continue to struggle with the current jobless rate above pre-recession levels.
- The year-over-year U.S. consumer price index (CPI) for February rose to 2.7%, its fastest growth in past 5 years.

WHAT TO WATCH

- **Debt ceiling fight:** Total U.S. debt currently stands at \$19.8 trillion of which \$14.3 is owned by the public (the rest by other government agencies). On April 28 the continuing resolution allowing spending beyond limit expires.
- **French elections:** If Marine Le Pen is one of the top two vote getters in the first-round of French presidential elections on April 23, global financial risks will skyrocket with a rising value of the U.S. dollar, sinking U.S. long term interest rates, and falling U.S. stock values. She supports France's exit from the European Union (Frexit). She is often portrayed as "Donald Trump in a skirt."
- **GDP:** On April 28, the Bureau of Economic Analysis releases it Q1, 2017 gross domestic product estimate. Annualized growth above 3.0% will be very bullish and above the expected 2.8%.

Goss Eggs (Recent Dumb Economic Moves)

- Even with the highest taxes in the U.S., Governor Cuomo of New York will, in the coming weeks, recommend renewal of its so-called "Millionaires Tax", propose tax increases on prepaid cell phones, and an expansion of New York's so-called "Amazon Tax" on Internet sales. As

a result, more and more New Yorkers snow-birding in Florida will fail to fly north as summer approaches.

Survey results for March will be released on the first business day of next month, May 1.

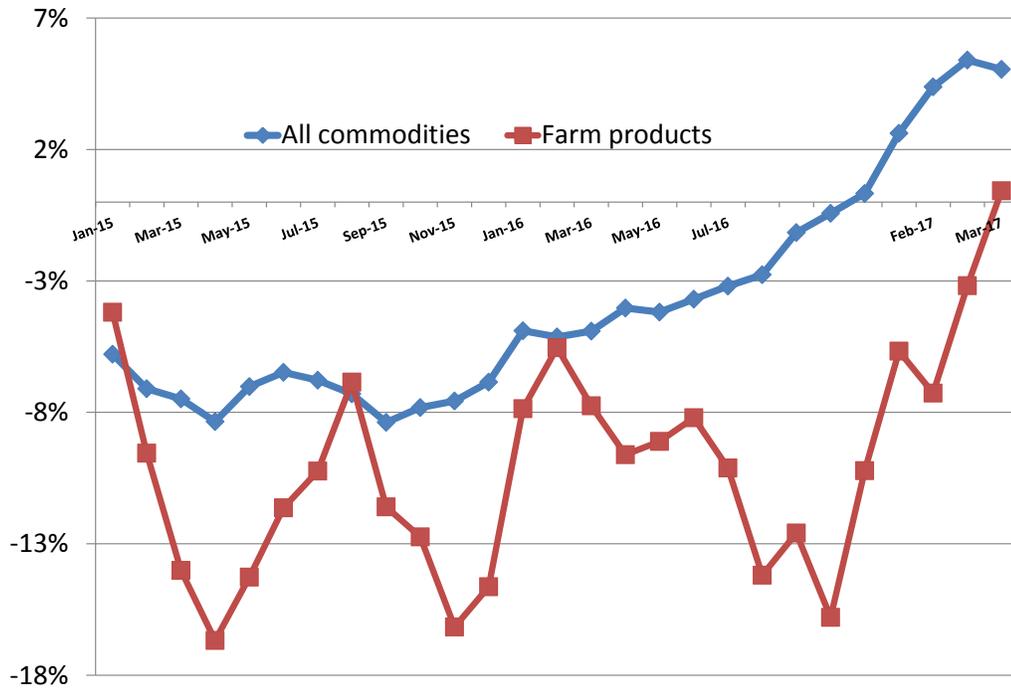
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For historical data and forecasts visit our website at:
<http://www2.creighton.edu/business/economicoutlook/>

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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2014
 FUELS & RELATED/METALS & METAL PRODUCTS

Year over year price change, commodities and farm product, 2015-17



Year over year price change, fuels and metal products, 2015-17

